Skiff Medical Center
Newton, Iowa

Basic Financial Statements and
Supplementary Information
June 30, 2011 and 2010

Together with Independent Auditor's Report

Skiff Medical Center

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Skiff Medical Center

Officials
June 30, 2011

Board of Trustees	Title	Term Expires
Debby Pence	Chair	December 2011
Jeff King, Ph.D	Vice Chair	December 2011
Lois Vogel	Secretary	December 2013
Larry DeCook, OD	Member	December 2013
Dan Skokan	Member	December 2011

Medical Center Officials	Title
Steve Long	President and CEO
Brett Altman	Clinical Operations Officer
Mike Anderson	Chief Financial Officer
Mary Swoboda	Chief Nursing Officer

SEIM JOHNSON

Independent Auditor's Report

To the Board of Trustees of
Skiff Medical Center
Newton, Iowa:

We have audited the accompanying balance sheet of Skiff Medical Center (Medical Center) as of and for the year ended June 30, 2011 and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Medical Center for the year ended June 30, 2010 were audited by other auditors whose report, dated December 5, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skiff Medical Center as of June 30, 2011, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Required Supplementary Information on page 3 through 8 and pages 26 and 27 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information included in Exhibits 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim Johnson, LLP

Omaha, Nebraska,
October 17, 2011.

Seim Johnson, LLP › 18081 Burt Street, Suite 200 › Omaha, NE 68022-4722 › Tel: 402.330.2660 › Fax: 402.330.5108 › SeimJohnson.com

As management of Skiff Medical Center (Medical Center), we offer readers of the Medical Center's financial statements this narrative overview and analysis of the Medical Center's financial performance during the fiscal years ending June 30, 2011, 2010 and 2009. Please read it in conjunction with the Medical Center's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Medical Center. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Medical Center report information using accounting methods similar to those used by private sector companies. These statements offer short-and long-term financial information about its activities. The balance sheet includes all of the Medical Center's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). It also provides the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of the Medical Center's operations over the past year and can be used to determine whether the Medical Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE MEDICAL CENTER

The balance sheet and the statement of revenues, expenses, and changes in net assets report the net assets of the Medical Center and the changes in them. The Medical Center's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth and new or changed governmental legislation, should also be considered.

NET ASSETS

A summary of the Medical Center's balance sheets at June 30, 2011, 2010 and 2009 are presented in Table 1 below:

Table 1- Condensed Balance Sheets (In Thousands)

	June 30, 2011	June 30, 2010	June 30, 2009
Current and other assets	$ 11,533	10,349	11,742
Capital assets	15,973	17,224	19,449
Total assets	27,506	27,573	31,191
Long-term debt outstanding	428	230	292
Other liabilities	2,930	2,503	2,900
Total liabilities	3,358	2,733	3,192
Invested in capital assets, net of related debt	15,398	16,931	19,068
Unrestricted	8,709	7,875	8,901
Restricted	41	34	30
Total net assets	$ 24,148	24,840	27,999

Total net assets decreased by $692,000 to $24.1 million in FY 2011. Total net assets at the end of FY '10 and FY '09 were $24.8 million and $28.0 million, respectively. The FY '11 decrease is primarily a result of a decrease in the depreciated value of property and equipment and continued limitations in reinvestment of capital assets.

REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The following table presents a summary of the Medical Center's historical revenues and expenses for each of the fiscal years ended June 30, 2011, 2010 and 2009.

Table 2- Condensed Statements of Revenue, Expenses, and Changes in Net Assets (In Thousands)

		2011	2010	2009
Net patient service revenue	$	31,456	30,315	34,016
Other operating revenue		1,418	1,436	1,566
Total revenue		32,874	31,751	35,582
Operating expenses:				
Salaries		16,694	17,369	20,012
Employee benefits		5,190	4,944	5,976
Purchased services and professional fees		2,839	3,193	2,042
Utilities		780	873	974
Supplies and other expense		6,591	6,318	6,311
Depreciation and amortization		2,322	2,452	2,545
Insurance		195	183	246
Interest		22	16	24
Total operating expenses		34,633	35,348	38,130
Operating (loss)		(1,759)	(3,597)	(2,548)
Non-operating gain (loss) - Investment income (loss)		897	434	(842)
Excess of revenues over expenses before contributions/grants		(862)	(3,163)	(3,390)
Contributions		170	4	25
Decrease in net assets		(692)	(3,159)	(3,365)
Total net assets, beginning		24,840	27,999	31,364
Total net assets, ending	$	24,148	24,840	27,999

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenue, expenses, and changes in net assets between June 30, 2011, June 30, 2010 and June 30, 2009.

Volume: Inpatient utilization (patient days excluding Hospice) declined during the year only 1%. Total admissions decreased 7.5%. The acute average length to stay increased for Medicare patients from 3.55 days for FY2010 to 3.97 days in FY2011. Total newborn infant births decreased from 194 in FY 2010 to 152 in FY 2011 or a decline of 20.6%. Outpatient utilization (visits) also declined during the year by a total of 1.5%. Total surgical procedures increased by 3.7% from 3,416 in FY2010 to 3,544 in FY 2011. Ancillary procedural volume services were mixed with decreases in Radiology (4.7%) and Laboratory (2.1%) and increases in Physical Therapy (7.85%) and Respiratory Care (8.0%). Hospice program days and visits (both inpatient and home) decreased 28.25%. Total Home Health Care visits decreased from 8,415 visits in FY2010 to 6,989 visits in FY2011 or a decline of 16.9%. Total Emergency Room patients increased 1.3% over the previous year.

Net Patient Service Revenue: Net patient service revenues increased by $1,140,263, or 3.8% in comparison to fiscal year 2010 primarily reflective of the rate increase implemented on July 1, 2010. Total gross charges increased from $64,452,790 in FY 2010 to $66,458,120 in FY 2011 (3.1%). Outpatient revenue represented 62% of our gross patient service revenue versus 61% for the prior fiscal year. Inpatient gross charges reflect 32% of gross charges for FY2011 down 1% from the prior year. Home Health Care, Hospice and Swing Beds represent the balance.

Contractual allowance as a percent of gross charge increased from 48.5% to 49.1%. The increase is mitigated as a result of special inpatient reimbursement increases for Medicare inpatients to "Tweener Hospitals". With the new low volume program (limited life), we saw average reimbursement on each claim received by 10% or more. Provision for bad debt decreased between FY '10 and FY '11 from $2,893,000 to $2,392,000 or an improvement of $501,000. Charity care/financial assistance decreased from $397,506 in FY2010 to $346,761 in FY 2011.

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2011, 2010 and 2009:

Table 3- Payor Mix by Percentage

Year Ended June 30,	2011	2010	2009
Medicare	46.5%	43.8%	44.0%
Wellmark / Blue Cross	19.4%	20.4%	19.8%
Commercial	19.4%	20.4%	21.0%
Medicaid	10.6%	11.3%	11.1%
Self Pay	4.1%	4.1%	4.4%
Total	100.0%	100.0%	100.0%

Salaries: Salary expense for FY 2011 was $16,694,000 and FY 2010 $17,369,000, a decrease of $675,000 or ($3.9%). The decrease in staffing costs in FY2011 and also FY 2010 is primarily due to the reduction in force that was done in November 2009 and also the subsequent establishment of an open position management committee that reviews the need to replace any position that becomes vacant. Total (i.e. average) hospital employed FTE's for FY 2011 were 283 and FY 2010 were 309 a reduction of 26 FTEs or (8.4%). Total FY 2009 employed FTE's were 355. The total hospital employed FTEs reduced since FY 2009 is 72 FTEs. Additionally, a total aggregate reduction in hospital employed salaries of $3,318,000 is noted since FY 2009.

Employee Benefits: Total employee benefit expense for FY 2011 was $5,190,000. This was an increase of $246,000 or 5.0% versus FY 2010 ($4,944,000). Total employee benefit expense is $786,000 less than FY 2009 (as noted above in the salary expense section) primarily due to a reduction in force in November 2009. Total employee health insurance expense for FY 2011 was $2,609,000 versus $2,263,000 in FY 2010 or an increase of $346,000 (15.2%). This is primarily due to increases in healthcare services provided and claims paid. A reduction of $698,000 in total employee health insurance expense from $2,961,000 in FY 2009 to $2,263,000 in FY 2010 is due to a reduction in force, restructuring of employee health benefits and wellness programs initiated at Skiff during the same periods.

Purchased Services and Professional Fees: Total purchased services and professional fees decreased from FY 2011 by $354,000 or 11.1% from $3,193,000 in FY 2010 to $2,839,000 in FY 2011. Total agency staff costs decreased by $456,000 or 25% in FY 2011 versus FY 2010. This decrease is primarily due to the completion of utilizing the executive management firm B. E. Smith for key strategic management positions in FY 2010 as well as the increase of $1,151,000 that is noted in FY 2010 over FY 2009. Increased agency expense was noted in FY 2011 for filling key vacancies related to Emergency Room physician services and CRNA positions in Anesthesia.

All Other General Service Expenses: This category includes those expenses necessary to support the medical center through plant operations, nutrition services, housekeeping, laundry and all other support service. Expense categories include utilities, supplies and other expense, depreciation, insurance and interest. In total, all other general expense services increased from $9,842,000 in FY 2010 to $9,910,000 in FY 2011 or an increase of $68,000 or .7%. This is primarily is indicative of the small changes in aggregate in patient volume for FY2011.

Non-operating Gain/(Loss): Overall, the Medical Center realized a non-operating gain of $897,000 in FY 2011, $434,000 in FY 10 and a loss of $842,000 in FY '09. Included in this amount are investment income and the change in the fair market value of investments of $869,000 (a 21% increase in FY 2011 versus FY2010), with the balance offset by interest expense or transfers to the Skiff Medical Center Foundation for capital/restricted fund utilization. The Medical Center has investments in marketable equity securities. The investment portfolio managed objective by 2 brokerage accounts is 60% equities and 40% non-equities (i.e. bonds, money markets and cash equivalents).

CAPITAL ASSETS

At the end of fiscal year 2011, the Medical Center had invested $16.0 million in capital assets versus $17.2 million in FY 2010. Due to losses from financial operations the Medical Center has added very little in capital assets during FY '11 and recent prior years, thus resulting in a net decrease of $1.2 million in net capital assets.

DEBT ADMINISTRATION

Capital lease obligations

The Medical Center's capital lease obligations increased from $292,052 in FY '10 to $574,658 in FY '11. Total capital lease obligations represent 17.1% of the Medical Center's total liabilities as of June 30, 2011, up from 10.7% at June 30, 2010. The increase was due to the leasing of Stryker Towers for the operating room and Philips ultrasound equipment for Radiology.

ECONOMIC FACTORS

The economy of Newton is slowly on the mend. The unemployment rate in the county decreased from 8.1% to 7.6%, though the county only improved one position and now has the sixth highest unemployment rate in the state.

Newton continues to suffer from long-term impacts from the departure of Maytag, a fortune 500 manufacturer of washers, dryers, and other appliances. A late 2010 economic analysis by Iowa State University indicated that the primary impact of the departure of Maytag, and the subsequent nation-wide recession, was a shift in the location of jobs out of Newton without a corresponding change in population. In fact, between 2000 and 2010 Jasper County lost only 350 residents (a 2% decline), even though the number of jobs dropped by nearly 30%. In the year 2000, 30% of Newton residents commuted out of town for their jobs, whereas by 2010, 60% commuted. Essentially, Newton has made the transition to bedroom community status. This change in status is highlighted in the recent decision by the local chamber of commerce and the local economic development corporation to join the Greater Des Moines Partnership.

Though Newton and Jasper County are now essentially operating as a far-flung eastern suburb of Des Moines, there is continued growth in local industry. TPI, a manufacturer of blades for large wind turbines now employs more than 800 people. Trinity, a manufacturer of wind towers employees another 200 workers. These two companies alone represent 1,000 jobs that did not exist five years ago in this community. New firms such as WG Anderson (a box manufacturer), and Hawkeye Stages (a tour bus company), have made plans to open new locations in Newton in 2011. Existing employers are providing a mixed-bag of impacts. Negatively, Iowa Telecom was purchased by Windstream and shortly thereafter the headquarters was closed and 150 positions were eliminated. On the positive side, Caleris, a local call center company, made the decision to add 100 positions over the next year and a local engineering firm, Springboard Engineering, was purchased by Underwriter Laboratories and they are adding 15 high-salary positions. Finally, Iowa Speedway continues to grow and finished its most successful season so far. The speedway recently announced a full schedule for 2012 and there is continuing hope for a Sprint Cup race for future years. The most recent analysis indicates that the speedway has a $50M annual economic impact for central Iowa and the impact should a sprint Cup race be added would double to more than $100M.

Perhaps the brightest sign that the community is on the up-hill side is the strong support for three United Way initiatives to address the areas of greatest need in our county – health, education, and income. Much work is underway to address these areas with wonderful commitment throughout the area. In addition, the City of Newton is undergoing its first long-term plan in many years and there is great hope that this will provide vision and direction for the future.

As the local economy continues to improve, these trends are having an amplified impact on the hospital. The struggles with a poor perception of the hospital related to the difficulties of 2008 – 2009 appear to be much reduced. This is due to the implementation of the marketing component of the new strategic plan. The "I choose Skiff" campaign has paid big dividends in this regard. The Medical Center's entrance into the Rural Community Hospital Demonstration Program which provides cost-based reimbursement on the in-patient side, provides additional funding for the next five years which will allow us to concentrate on the implementation of the other components of the strategic plan. One specific initiative, the purchase of a new digital radiology room, 128 slice CT scanner, and Iowa's first digital broadband MRI, is most exciting as it will set Skiff apart as the leading rural hospital imaging center in the upper Midwest.

The full strategic plan includes the following five points:

1. Put people first by fostering a culture of ownership focused on our core values, a shared hopefulness on the part of each caregiver, and a desire to make Skiff the best possible place to work and provide patient care.
2. Remain a full-service hospital but evaluate individual services for potential growth or replacement based on environmental trends, community needs, and financial performance.
3. Enhance physician and public confidence by improving our ability to care for higher acuity patients; developing more advanced diagnostic capabilities, introducing new out-patient based therapeutic services and specialties; and ensuring physician inclusion in our decision making processes.
4. Improve the effectiveness and efficiency of our operations through the implementation of measurement tools and the use of national best practices, thus creating a sense of urgency throughout Skiff in regards to the importance of being the best at what we do.
5. Be intentional in telling the Skiff story to the community and focus our efforts on increasing physician referrals, building good will, and increasing awareness about our service offerings.

We believe that continuing implementation of this plan which focuses on creating a culture of ownership, growing volumes, and increasing efficiency of operations will place the hospital in a good position for long term vitality.
It is clear that FY 12 will be another challenging year, but positive steps are being taken and we have high hopes for the future.

CONTACTING THE MEDICAL CENTER'S FINANCE DEPARTMENT

The Medical Center's financial statements are designed to present users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about the report or need additional financial information, please contact Mike Anderson, Chief Financial Officer at 641-791-4886 or via mail at 204 N. 4th Ave. East, Newton, Iowa 50208.

Skiff Medical Center

Balance Sheets
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,589,970	1,643,744
Assets limited as to use or restricted	300,000	300,000
Patient receivables, net of allowance for doubtful accounts of $1,206,738 in 2011 and $1,241,792 in 2010	4,288,717	3,549,575
Inventories	512,592	466,828
Prepaid expenses	166,758	254,427
Estimated third-party payor settlements	--	327,756
Total current assets	6,858,037	6,542,330
Assets limited as to use or restricted - less amounts required for current obligations	4,675,837	3,806,545
Capital assets, net	15,972,771	17,223,698
Total assets	$ 27,506,645	27,572,573
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	$ 146,537	62,217
Accounts payable	587,791	696,789
Accrued expenses -		
Accrued payroll and payroll taxes	247,907	397,156
Accrued employee benefits	1,472,313	1,346,682
Estimated third-party payor settlements	475,665	--
Total current liabilities	2,930,213	2,502,844
Long-term debt, net of current maturities	428,121	229,835
Total liabilities	3,358,334	2,732,679
Net assets:		
Invested in capital assets, net of related debt	15,398,113	16,931,646
Restricted, nonexpendable permanent endowment	41,500	33,500
Unrestricted	8,708,698	7,874,748
Total net assets	24,148,311	24,839,894
Total liablities and net assets	$ 27,506,645	27,572,573

See notes to the financial statements

Skiff Medical Center

Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	2011	2010
OPERATING REVENUE:		
Net patient service revenue, net of provision for bad debts of $2,391,730 in 2011 and $2,892,819 in 2010	$ 31,455,768	30,315,505
Other operating revenue	1,418,497	1,435,871
Total operating revenue	32,874,265	31,751,376
OPERATING EXPENSES:		
Salaries	16,694,388	17,369,216
Employee benefits	5,190,277	4,943,803
Purchased services and professional fees	2,839,683	3,192,941
Utilities	779,611	873,477
Supplies and other expenses	6,590,551	6,318,212
Depreciation and amortization	2,322,022	2,451,812
Insurance	194,822	182,502
Interest	21,858	16,395
Total operating expenses	34,633,212	35,348,358
OPERATING LOSS	(1,758,947)	(3,596,982)
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	897,071	434,040
EXCESS OF EXPENSES OVER REVENUE BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND ADDITIONS TO PERMANENT ENDOWMENTS	(861,876)	(3,162,942)
ADDITIONS TO PERMANENT ENDOWMENTS	8,000	4,000
CAPITAL GRANTS AND CONTRIBUTIONS	162,293	--
DECREASE IN NET ASSETS	(691,583)	(3,158,942)
NET ASSETS, Beginning of year	24,839,894	27,998,836
NET ASSETS, End of year	$ 24,148,311	24,839,894

See notes to financial statements

Skiff Medical Center

Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	$ 31,520,047	32,733,062
Cash paid for employee salaries and benefits	(21,908,283)	(22,435,213)
Cash paid to suppliers and contractors	(10,471,760)	(10,706,084)
Home health services grants received	352,517	372,258
Contributions received for hospice services	204,172	110,056
Other receipts and payments, net	861,808	953,557
Net cash provided by operating activities	558,501	1,027,636
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Endowment gifts received	8,000	4,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(688,029)	(227,181)
Capital grants and contributions	162,293	--
Payments on long term debt	(100,460)	(88,051)
Interest paid on debt	(21,858)	(16,395)
Net cash used in capital and related financing activities	(648,054)	(331,627)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to assets limited as to use, net	(869,292)	(402,999)
Investment income, net	897,071	434,040
Net cash provided by investing activities	27,779	31,041
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,774)	731,050
CASH AND CASH EQUIVALENTS - Beginning of year	1,643,744	912,694
CASH AND CASH EQUIVALENTS - End of year	$ 1,589,970	1,643,744
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Equipment acquired under capital lease obligations	$ 383,066	--

See notes to financial statements

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	$ (1,758,947)	(3,596,982)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,322,022	2,451,812
Interest expense included in operating expenses	21,858	16,395
(Increase) decrease in current assets -		
Patient receivables	(739,142)	2,521,785
Inventories	(45,764)	37,496
Prepaid expenses	87,669	72,361
Estimated third-party payor settlements - Medicare and Medicaid	327,756	(104,228)
Increase (decrease) in current liabilities -		
Accounts payable	(108,998)	(248,809)
Accrued payroll and payroll taxes	(149,249)	(11,781)
Accrued employee benefits	125,631	(110,413)
Estimated third-party payor settlements - Medicare and Medicaid	475,665	--
Net cash provided by operating activities	$ 558,501	1,027,636

See notes to financial statements

(1) Organization and Summary of Significant Accounting Policies

Skiff Medical Center (Medical Center) is a municipal hospital and is an enterprise fund of the City of Newton, Iowa, organized under Chapter 392, Code of Iowa and as such, is not subject to taxes on income or property. The Medical Center grants credit to patients, substantially all of whom are residents of Jasper County, Iowa.

The following is a summary of significant accounting policies of Skiff Medical Center (Medical Center). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. Reporting Entity

For financial reporting purposes, the Medical Center has included all the funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Medical Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Medical Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Medical Center. The Medical Center has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Medical Center is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Medical Center's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. Basis of Presentation

The balance sheets display the Medical Center's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets:

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Medical Center.

Expendable – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Medical Center's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Medical Center has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs).

E. Accounting Estimates and Assumptions

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

G. Patient Receivables, Net

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Inventories*

Inventories are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases or realizable value.

I. *Assets Limited as to Use or Restricted*

<u>*By Board of Trustees*</u> - Periodically, the Medical Center's Board of Trustees has set aside assets for future capital improvements and expansion and for unexpected fluctuations in self-funded health insurance claims. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

<u>*By Donor*</u> – These funds have been restricted by donors for specific capital improvements and operating expenses of the Medical Center.

J. *Capital Assets*

Capital assets acquisitions are recorded at cost. Donated capital assets are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Capital assets are depreciated or amortized using the following asset lives:

Land improvements	5 to 56 years
Buildings	5 to 40 years
Fixed equipment	5 to 30 years
Major movable equipment	3 to 20 years

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire capital assets are reported as capital grants and contributions.

K. *Compensated Absences*

Paid time off is accrued as an expense and a liability as earned and may be carried forward by employees up to a specified maximum based upon years of service. The cost of paid time off is recorded as a current liability on the balance sheet. The paid time off liability has been computed based on rates of pay in effect at June 30, 2011 and 2010.

L. *Statements of Revenue, Expenses, and Changes in Net Assets*

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provisions of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenue and expenses.

M. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimate basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

N. Charity Care

To fulfill its mission of community service, the Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

O. Grants and Contributions

From time to time, the Medical Center receives contributions from Skiff Medical Center Foundation, as well as grants and contributions from individuals, governmental and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

P. Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Q. Reclassification

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 reporting format.

R. Subsequent Events

The Medical Center considered events occurring through October 17, 2011 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Cash and Assets Limited to Use or Restricted

The Medical Center's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Medical Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Medical Center manages the following risks in accordance with their formal investment policy:

Concentration of Credit Risk: The Medical Center's investment policy limits the amount the Medical Center may invest in any one issuer to 7%, and limits the amounts the Medical center may investment in any one sector of the market to 30%. Mutual funds are exempted from these constraints.

Interest Rate Risk: The Medical Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Medical Center.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Medical Center's investment policy requires funds to be deposited into the banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The composition of assets limited as to use or restricted as of June 30, 2011 and 2010 is as follows:

	2011	2010
Assets limited as to use or restricted:		
By Board of Trustees for capital improvements -		
Cash and cash equivalents	$ 131,180	195,760
Certificates of deposit	300,000	300,000
Mutual funds -		
Fixed Income	1,566,505	733,122
Equities	2,632,552	2,540,063
By Board of Trustees for self funded health insurance claims -		
Certificates of deposit	300,000	300,000
	4,930,237	4,068,945
By Donor:		
Cash and cash equivalents	4,100	37,600
Certificates of deposit	41,500	--
	45,600	37,600
Total assets limited as to use or restricted	4,975,837	4,106,545
Less amounts required for current obligations	(300,000)	(300,000)
Long term portion	$ 4,675,837	3,806,545

(3) Patient Receivables

Patient receivables reported as current assets consisted of these amounts:

		2011	2010
Receivable from patients	$	2,363,296	1,898,253
Receivable from insurance carriers		3,146,705	2,711,249
Receivable from Medicare		2,849,106	2,197,118
Receivable from Medicaid		521,801	560,291
Total patient receivables		8,880,908	7,366,911
Less allowances for contractual adjustments and uncollectibles		4,592,191	3,817,336
Net patient receivables	$	4,288,717	3,549,575

The Medical Center grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivable from patients and third-party payors was as follows:

	2011	2010
Medicare	32%	30%
Medicaid	6	8
Commercial insurance	36	37
Patients	26	25
	100%	100%

(4) Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per patient classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Under a provision of the Balanced Budget Refinement Act (as amended by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and the Deficit Reduction Act of 2005) for services furnished before January 1, 2010, the Medical Center's prospectively determined payments for certain outpatient services cannot be less than reimbursement based on annual costs and payment-to-cost ratios of their June 30, 1996 years. Final settlement is determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. Unless extended, after January 1, 2010, the payment for outpatient services is limited to the prospectively determined amounts. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per outpatient ambulatory patient group.

Blue Cross - Inpatient services are paid at prospectively determined rates per discharge. Payments for outpatient services are based upon the lesser of the Medical Center's billed charges, a maximum allowable fee or a percentage of charges.

The Medical Center has also entered into payment agreements with certain health maintenance organizations and a managed care program. The basis for payment to the Medical Center under these agreements includes prospectively determined daily rates, prospectively determined rates for ambulatory surgery services and home health services, and discounts from established rates.

The following illustrates the Medical Center's patient service revenue at its established rates and revenue deductions by major third party payors:

	2011	2010
Gross patient service revenue -		
Inpatient	$ 21,748,383	21,492,338
Outpatient	41,169,190	39,127,098
Home health and hospice	3,540,547	3,833,354
	66,458,120	64,452,790
Contractual adjustments -		
Medicare	(18,906,408)	(16,908,560)
Medicaid	(4,364,532)	(4,848,847)
Blue Cross	(4,834,367)	(5,137,271)
Commercial insurance and other	(4,158,554)	(3,952,282)
Charity care	(346,761)	(397,506)
	(32,610,622)	(31,244,466)
Provision for bad debts	(2,391,730)	(2,892,819)
Net patient service revenue	$ 31,455,768	30,315,505

(5) Capital Assets

Capital assets and the related accumulated depreciation and amortization are summarized as follows:

	June 30, 2010	Additions	Deletions	Transfers and Disposals	June 30, 2011
Capital assets not being depreciated/amortized:					
Land	$ 2,144,173	--	--	--	2,144,173
Construction in progress	--	169,380	--	(16,345)	153,035
Total capital assets not being depreciated/amortized	2,144,173	169,380	--	(16,345)	2,297,208
Capital assets being depreciated/amortized:					
Land improvements	2,241,002	--	--	--	2,241,002
Buildings	20,883,653	216,645	--	--	21,100,298
Fixed equipment	6,858,643	97,408	--	--	6,956,051
Major moveable equipment including equipment under capital lease	17,551,223	587,662	--	16,345	18,155,230
Total capital assets being depreciated/amortized	47,534,521	901,715	--	16,345	48,452,581
Less accumulated depreciation/amortization:					
Land improvements	1,808,863	99,885	--	--	1,908,748
Buildings	11,449,846	819,151	--	--	12,268,997
Fixed equipment	5,135,488	312,810	--	--	5,448,298
Major moveable equipment including equipment under capital lease	14,060,799	1,090,176	--	--	15,150,975
Total accumulated depreciation/amortization	32,454,996	2,322,022	--	--	34,777,018
Total capital assets being depreciated/amortized, net	15,079,525	(1,420,307)	--	16,345	13,675,563
Total capital assets, net	$ 17,223,698	(1,250,927)	--	--	15,972,771

	June 30, 2009	Additions	Deletions	Transfers and Disposals	June 30, 2010
Capital assets not being depreciated/amortized:					
Land	$ 2,144,173	--	--	--	2,144,173
Construction in Progress	348,157	--	(59,616)	(288,541)	--
Total capital assets not being depreciated/amortized	2,492,330	--	(59,616)	(288,541)	2,144,173
Capital assets being depreciated/amortized:					
Land improvements	2,241,002	--	--	--	2,241,002
Buildings	20,883,653	--	--	--	20,883,653
Fixed equipment	6,791,275	67,368	--	--	6,858,643
Major moveable equipment including equipment under capital lease	17,043,253	219,429	--	288,541	17,551,223
Total capital assets being depreciated/amortized	46,959,183	286,797	--	288,541	47,534,521
Less accumulated depreciation and amortization:					
Land improvements	1,708,838	100,025	--	--	1,808,863
Buildings	10,604,499	845,347	--	--	11,449,846
Fixed equipment	4,830,980	304,508	--	--	5,135,488
Major moveable equipment including equipment under capital lease	12,858,867	1,201,932	--	--	14,060,799
Total accumulated depreciation/amortization	30,003,184	2,451,812	--	--	32,454,996
Total capital assets being depreciated/amortized, net	16,955,999	(2,165,015)	--	288,541	15,079,525
Total capital assets, net	$ 19,448,329	(2,165,015)	(59,616)	--	17,223,698

(6) Long-Term Debt

Long-term debt activity of the Medical Center as of June 30, 2011 and 2010 is summarized as follows:

	Beginning Balance	Additions	Principal Payments	Ending Balance	Due Within One Year
Obligations under capital leases	$ 292,052	383,066	100,460	574,658	146,537

	Beginning Balance	Additions	Principal Payments	Ending Balance	Due Within One Year
Obligations under capital leases	$ 380,103	--	88,051	292,052	62,217

Obligations Under Capital Leases

The Medical Center leases various medical equipment and information system hardware and software under capital lease agreements. The property cost and the related liability under each capital lease was recorded at the present value of the future minimum payments due under the lease, as determined with inputed interest rates ranging from 4.4% to 5.0%.

Principal and interest maturities of the capital lease obligations at June 30, 2011 are summarized as follows:

Year	Principal	Interest	Total
2012	$ 146,537	24,325	170,862
2013	153,816	17,046	170,862
2014	161,458	9,404	170,862
2015	87,770	2,595	90,365
2016	25,077	371	25,448
	$ 574,658	53,741	628,399

Capital Lease Commitments

The Medical Center has entered into a Master Lease Agreement with Phillips Medical Capital LLC committing to lease additional medical equipment in the amount of approximately $2,700,000. The equipment will be placed in service over the next fiscal year.

(7) Operating Leases

The Medical Center has entered into a leasing arrangement to lease space in the Medical Arts Building to physicians. The lease requires annual rentals of $30,330 through December 2011.

The Medical Center also leases a portion of its building to a corporation which provides dialysis services. This lease agreement requires annual rents of $43,313 through January 2013. Either party may cancel this lease on February 1 of each year by giving sixty days notice.

The Medical Center has also entered into an arrangement to lease the land upon which the Medical Arts Building was erected to the developer for a term of ninety-nine years beginning January 1, 1993. The lease calls for annual rentals with the rental rate being adjusted every 10 years to reflect any changes in the

Consumer Price Index. The current annual rental rate is $6,264, of which the Medical Center is responsible for 59.72% of the annual lease payment. The Developer also requires a monthly assessment payment for utilities, maintenance, and management of the Medical Arts Building. The current monthly assessment payment amounts to $8,710 per month.

(8) Other Postemployment Benefits (OPEB)

Plan Description

The Medical Center operates a single-employer retiree benefit plan which provides medical benefits/prescription drug benefits for retirees and their spouses. There are 271 active and 7 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a self-insured plan. Retirees under age 65 pay the same contribution for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Medical Center. The Medical Center currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The Medical Center's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Medical Center, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Medical Center's annual OPEB cost for the years ended June 30, 2011 and 2010, the amount actually contributed to the plan and changes in the Medical Center's net OPEB obligations:

	2011	2010
Annual required contribution	$ 44,630	38,285
Interest on net OPEB obligation	(148)	69
Adjustment to annual required contribution	249	(116)
Annual OPEB cost	44,731	38,238
Contributions made	39,777	45,484
Decrease in net OPEB obligation	4,954	(7,246)
Net OPEB obligation (benefit), beginning of year	(4,947)	2,299
Net OPEB obligation (benefit), end of year	$ 7	(4,947)

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of year net OPEB benefit was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

The Medical Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB benefit as of June 30, 2011 and 2010 are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of annual OPEB Cost Contributed	Net OPEB Obligation (Benefit)
June 30, 2010	$38,238	119%	$ (4,947)
June 30, 2011	44,731	89	7

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was $428,494 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $428,494. The covered payroll (annual payroll of active employees covered by the plan) was approximately $16,694,000 and the ratio of the UAAL to the covered payroll was 2.6%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the notes to financial statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2010 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3% discount rate based on the Medical Center's funding policy. The projected annual medical trend rate is 8%. The ultimate medical trend rate is 4%. The medical trend rate is reduced 1% each year until reaching the 4% ultimate trend rate.

Mortality rates are from the RP2000 Combined Mortality Rates for Male and Female. Termination rates were based upon national termination studies performed by the Society of Actuaries, adjusted to reflect the recent lower termination rates experienced by the Medical Center. Retirement rates were developed based upon recent Medical Center experience.

Projected claim costs of the medical plan are $838 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Defined Benefit Pension Plan

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.5% of their annual salary and the Medical Center is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were $1,098,744, $1,079,219 and $1,206,065, respectively, equal to the required contributions for each year.

(10) Self-Insurance

The Medical Center has a self-insurance program for hospitalization and medical coverage for its employees. The Medical Center limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to $60,000 per year. The Medical Center's aggregate annual loss limitation is limited to 120% of estimated claims each year. The Medical Center's expense under the self-insurance program for the years ended June 30, 2011 and 2010 was $2,608,634 and $2,262,598, respectively.

Cumulative amounts estimated to be payable by the Medical Center with respect to pending and potential claims for all years in which the Medical Center is liable under its self-insurance program have been accrued as liabilities. Such accrued liabilities are necessarily based on estimates; thus, the Medical Center's ultimate liability may exceed or be less than amounts accrued.

During the year ended June 30, 2010, the Board of Trustees designated $300,000 as assets whose use is limited for the payment of claims incurred under the self-insurance program.

(11) Malpractice Claims

The Medical Center carries a professional liability policy (including malpractice) providing coverage of $1,000,000 for injuries per occurrence and $3,000,000 aggregate coverage. In addition, the Medical Center carries an umbrella policy which provides $5,000,000 coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Medical Center should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claims experience, no such accrual has been made.

(13) Related Party Transactions

Because of the existence of common trustees and other factors, the Medical Center and Skiff Medical Center Foundation (Foundation) are related parties. The Foundation was formed to promote the recruitment of medical personnel to practice in Jasper County and the Medical Center for the purpose of maintaining and improving the medical-health care services available to all residents of Jasper County, Iowa.

A summary of the Foundation's assets, liabilities and net assets as of June 30, 2011 and 2010 follows:

		2011	2010
Assets	$	360,685	329,154
Net Assets	$	360,685	329,154

The Foundation contributed $147,696 and $29,870 to the Medical Center during the years ended June 30, 2011 and 2010, respectively, for the purchase of medical and other equipment.

(14) Nonexpendable Permanent Endowment

Nonexpendable permanent endowment consists of contributions from the Geisler Penquite Charitable Corporation. The funds are currently invested in a certificate of deposit. The interest from the funds is to be used for hospice programs as the Board of Trustees shall direct.

(15) Risks and Uncertainties

Regulatory Environment

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of the Medicare Recovery Audit Contract (RAC) program. During fiscal year 2007, the RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. CMS is in the process of rolling out this program nationally. As such the Medical Center may be subject to such an audit at some time in the future. The final impact of this program cannot be quantified at this time.

Current Economic Conditions

The current economic environment presents organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Medical Center.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Medical Center's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Medical Center's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medical program.

Given the volatility of current economic conditions the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for patient receivables that could negatively impact the Medical Center's ability to maintain sufficient liquidity.

(16) Subsequent Event

During fiscal year 2011, the Medical Center was approved to participate in a Rural Community Hospital Demonstration Program for a five year period beginning July 1, 2011. Under the program the Medical Center will receive Medicare defined costs for inpatient and swing-bed services in the first year of the program. In years two through five, the Medical Center will receive the lower of cost reimbursement or an update factor determined by Medicare. Currently the Medical Center is reimbursed under a prospective payment system for these services.

Skiff Medical Center

Required Supplementary Information
Schedule of Funding Progress for the Retiree Health Plan
For the Years Ended June 30, 2011 and 2010

Year Ended June 30	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2009	July 1, 2008	$ --	$ 416,532	$ 416,532	0.0%	$ 19,942,000	2.1%
2010	July 1, 2008	$ --	$ 416,532	$ 416,532	0.0%	$ 17,377,000	2.4%
2011	July 1, 2010	$ --	$ 428,494	$ 428,484	0.0%	$ 16,694,000	2.6%

See Note 8 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

Skiff Medical Center

Required Supplementary Information
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets
Budget and Actual (Cash Basis)
June 30, 2011 and 2010

	Accrual Basis			Budgeted Amounts		Variance
	General	Accrual Adjustments	Cash Basis	Original	Amended	Favorable (Unfavorable)
Estimated other revenues / receipts	$ 33,941,629	64,279	34,005,908	31,181,053	35,357,129	(1,351,221)
Expenses / Disbursements	34,633,212	(1,442,822)	33,190,390	33,678,779	36,348,293	3,157,903
Net	(691,583)	1,507,101	815,518	(2,497,726)	(991,164)	$ 1,806,682
Balance beginning of year	24,839,894	(19,089,605)	5,750,289	5,750,289	5,750,289	
Balance end of year	$ 24,148,311	(17,582,504)	6,565,807	3,252,563	4,759,125	

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Medical Center preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Medical Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the city council. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2011, the Medical Center's expenditures did not exceed the amount budgeted.

Skiff Medical Center — Exhibit 1

Schedules of Net Patient Service Revenue
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Inpatient	Outpatient	Home Health and Hospice Services	Total	Inpatient	Outpatient	Home Health and Hospice Services	Total
DAILY PATIENT SERVICES:								
Medical and surgical	$ 4,710,922	208,853	--	4,919,775	4,713,256	167,927	--	4,881,183
Obstetric	430,879	2,008	--	432,887	538,767	2,233	--	541,000
Coronary care	666,396	50	--	666,446	527,881	1,921	--	529,802
Swing bed								
Skilled care	180,800	--	--	180,800	150,400	--	--	150,400
Nursery	239,235	--	--	239,235	297,660	--	--	297,660
	6,228,232	210,911	--	6,439,143	6,227,964	172,081	--	6,400,045
OTHER NURSING SERVICES:								
Operating room	4,811,388	4,641,323	--	9,452,711	4,797,524	4,943,828	--	9,741,352
Recovery room	269,405	747,842	--	1,017,247	279,455	793,657	--	1,073,112
Delivery and labor room	269,414	224,775	--	494,189	294,945	256,295	--	551,240
Emergency services	1,037,076	5,865,850	--	6,902,926	1,092,483	5,350,567	--	6,443,050
Home health services	--	--	1,673,231	1,673,231	--	--	1,759,178	1,759,178
Hospice services	--	--	1,662,331	1,662,331	--	--	1,831,336	1,831,336
	6,387,283	11,479,790	3,335,562	21,202,635	6,464,407	11,344,347	3,590,514	21,399,268
OTHER PROFESSIONAL SERVICES:								
Laboratory	1,546,435	3,188,596	--	4,735,031	1,602,762	3,214,192	--	4,816,954
Blood transfusions	141,977	97,415	--	239,392	159,911	108,546	--	268,457
Electrocardiology and cardiovascular	362,170	1,148,413	--	1,510,583	338,545	1,012,028	--	1,350,573
Sleep disorder	--	363,661	--	363,661	2,599	291,096	--	293,695
Electroencephalography	1,433	9,551	--	10,984	2,865	5,731	--	8,596
Radiology and mammography	374,104	2,946,713	--	3,320,817	351,189	2,904,856	--	3,256,045
CT scans	851,403	3,391,567	--	4,242,970	862,435	3,359,792	--	4,222,227
Nuclear scans and ultrasound	225,293	3,027,086	--	3,252,379	193,164	2,818,810	--	3,011,974
Magnetic resonance imaging	172,170	2,079,763	--	2,251,933	173,756	1,994,399	--	2,168,155
Pharmacy	1,969,335	2,970,686	--	4,940,021	2,245,657	3,203,974	--	5,449,631
Intravenous therapy	440,494	272,078	--	712,572	168,721	67,566	--	236,287
Anesthesiology	1,028,622	2,774,781	--	3,803,403	975,395	2,572,012	--	3,547,407
Physical therapy	311,602	1,977,722	141,255	2,430,579	243,167	1,688,138	157,815	2,089,120
Occupational therapy	172,049	246,045	60,075	478,169	106,937	88,932	69,975	265,844
Respiratory therapy	1,477,922	140,334	--	1,618,256	1,330,576	156,989	--	1,487,565
Speech therapy	43,368	353,768	3,655	400,791	25,336	318,529	15,050	358,915
Audiology	14,491	345,364	--	359,855	16,952	310,556	--	327,508
Cardiac rehabilitation	--	179,734	--	179,734	--	195,136	--	195,136
Enterostomal	--	--	--	--	--	11,944	--	11,944
Occupational health	--	152,551	--	152,551	--	224,053	--	224,053
Alternative health services	--	10,765	--	10,765	--	11,785	--	11,785
Clinics	--	3,230,844	--	3,230,844	--	2,382,801	--	2,382,801
Sports rehabilitation	--	571,052	--	571,052	--	668,805	--	668,805
	9,132,868	29,478,489	204,985	38,816,342	8,799,967	27,610,670	242,840	36,653,477
GROSS PATIENT SERVICE REVENUE	$ 21,748,383	41,169,190	3,540,547	66,458,120	21,492,338	39,127,098	3,833,354	64,452,790
LESS:								
Contractual adjustments and other deductions, primarily Medicare and Medicaid				(32,263,861)				(30,846,960)
Provision for bad debts				(2,391,730)				(2,892,819)
Charity care services and other discounts, based on charges forgone				(346,761)				(397,506)
NET PATIENT SERVICE REVENUE				$ 31,455,768				30,315,505

Skiff Medical Center **Exhibit 2**

Other Operating Revenue
For the Years Ended June 30, 2011 and 2010

	2011	2010
Grant revenue for home health services -		
Jasper County	$ 156,500	156,527
Iowa Department of Health and other grants	196,017	215,731
Total grant revenue for home health services	352,517	372,258
Grants and contributions for hospice services	204,172	110,056
Cafeteria and dietary revenue	200,864	244,871
Facilities management	350,436	314,670
Lifeline rental	112,701	114,709
Clinic rental	57,799	62,930
Other grant revenue	74,849	103,723
Other	65,159	112,654
	$ 1,418,497	1,435,871

Skiff Medical Center

Exhibit 3

Departmental Expenses
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Salaries and Benefits	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Benefits	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Adult and pediatric	1,593,347	142,597	89,606	1,825,550	1,601,819	64,012	99,876	1,765,707
Coronary Care	283,696	120,922	10,144	414,762	207,042	149,108	6,842	362,992
Nursing Administration	464,622	6,580	33,818	505,020	501,677	105,000	31,465	638,142
Home Health	1,039,479	69,340	119,485	1,228,304	1,174,589	50,221	131,734	1,356,544
Hospice	869,391	8,503	269,019	1,146,913	896,536	7,768	225,433	1,129,737
	4,250,535	347,942	522,072	5,120,549	4,381,663	376,109	495,350	5,253,122
OTHER PROFESSIONAL SERVICES:								
Operating and recovery room	884,860	14,455	1,884,334	2,783,649	1,001,514	2,703	1,754,896	2,759,113
Emergency room	2,124,703	295,924	144,210	2,564,837	2,408,504	232,718	145,329	2,786,551
OB/Delivery/Nursery	623,182	98,804	40,529	762,515	717,668	206,172	81,927	1,005,767
Laboratory	735,369	183,348	513,566	1,432,283	736,168	191,985	549,707	1,477,860
Audiology	71,290	1,390	147,223	219,903	73,205	--	115,930	189,135
Pharmacy	409,304	930	973,664	1,383,898	420,855	1,313	1,053,254	1,475,422
Physical therapy	883,379	7,593	44,196	935,168	970,607	8,793	52,262	1,031,662
Radiology	1,024,701	107,653	527,416	1,659,770	1,066,094	91,033	526,387	1,683,514
Anesthesiology	380,479	501,663	60,406	942,548	720,419	95,879	48,155	864,453
Health Information Management	421,164	16,890	37,155	475,209	456,731	26,499	33,043	516,273
Central services and supply	259,894	2,162	57,158	319,214	270,248	--	69,549	339,797
Cardiac rehab	101,073	--	1,602	102,675	106,331	--	464	106,795
Social services	182,851	142	15,049	198,042	189,528	--	11,465	200,993
Sleep lab	4,033	100,199	11,040	115,272	3,445	91,500	--	94,945
Clinic	2,072,620	52,880	380,337	2,505,837	1,715,705	29,342	246,162	1,991,209
Enterostomal therapy	1,527	200	9,713	11,440	46,795	--	192	46,987
Occupational therapy	36,371	119,331	3,351	159,053	74,869	5,578	1,792	82,239
Respiratory therapy	326,991	1,761	43,697	372,449	302,581	2,473	35,801	340,855
Speech therapy	88,276	--	1,894	90,170	50,802	85,729	1,090	137,621
Alternative health	4,606	3,277	204	8,087	16,938	875	547	18,360
Occupational health	192,678	5,415	16,306	214,399	297,913	6,152	11,909	315,974
Electrocardiology	20,657	30,528	1,632	52,817	21,643	17,415	2,511	41,569
	10,850,008	1,544,545	4,914,682	17,309,235	11,668,563	1,096,159	4,742,372	17,507,094
GENERAL SERVICES:								
Plant operation and maintenance	399,073	97,426	813,109	1,309,608	376,086	75,308	946,842	1,398,236
Dietary	577,318	15,675	298,979	891,972	660,559	3,031	303,972	967,562
Housekeeping	298,541	1,723	58,677	358,941	348,657	231	66,538	415,426
Laundry and linen	125,850	137	15,067	141,054	152,008	1,156	17,567	170,731
	1,400,782	114,961	1,185,832	2,701,575	1,537,310	79,726	1,334,919	2,951,955
ADMINISTRATIVE SERVICES	2,382,387	832,235	747,576	3,962,198	2,017,452	1,640,947	619,048	4,277,447
NONDEPARTMENTAL								
Employee benefits	3,000,953	--	--	3,000,953	2,708,031	--	--	2,708,031
Depreciation and amortization	--	--	2,322,022	2,322,022	--	--	2,451,812	2,451,812
Insurance	--	--	194,822	194,822	--	--	182,502	182,502
Interest	--	--	21,858	21,858	--	--	16,395	16,395
	3,000,953	--	2,538,702	5,539,655	2,708,031	--	2,650,709	5,358,740
	$ 21,884,665	2,839,683	9,908,864	34,633,212	22,313,019	3,192,941	9,842,398	35,348,358

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2011 and 2010

ANALYSIS OF AGING:

	2011		2010	
Days Since Discharge	Amount	Percent of Total	Amount	Percent of Total
0 - 30	$ 5,373,105	60.50 %	4,778,667	64.87 %
31 - 60	1,130,612	12.73	808,964	10.98
61 - 90	584,036	6.58	447,301	6.07
91 - 120	477,895	5.38	442,537	6.01
120 - 150	309,202	3.48	587,376	7.97
> 150	1,006,058	11.33	302,066	4.10
	8,880,908	100.00 %	7,366,911	100.00 %
Less:				
Allowance for doubtful accounts	(1,206,738)		(1,241,792)	
Allowance for contractual adjustments	(3,385,453)		(2,575,544)	
	$ 4,288,717		3,549,575	

	2011	2010
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	49.76 days	42.74 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	$ 1,241,792	1,559,352
Provision of uncollectible accounts	2,391,730	2,892,819
Recoveries of accounts previously written off	367,288	394,089
Accounts written off	(2,794,072)	(3,604,468)
Balance, end of year	$ 1,206,738	1,241,792

Inventories / Prepaid Expenses
For the Years Ended June 30, 2011 and 2010

		2011	2010
INVENTORY:			
Pharmacy	$	73,177	83,958
Operating room		314,865	262,569
General stores		124,550	120,301
	$	512,592	466,828

		2011	2010
PREPAID EXPENSES:			
Insurance	$	36,532	38,075
Dues		20,094	34,169
Service contracts		110,132	161,374
Salaries		--	20,809
	$	166,758	254,427

Financial Statistical Highlights
For the Years Ended June 30, 2011 and 2010

	2011	2010
Patient Days:		
Hospital -		
Adult and pediatric -		
Medicare	3,827	3,395
All other	1,935	2,423
Swing bed - skilled	452	376
Nursery	394	484
Hospice	863	840
	7,471	7,518
Discharges:		
Hospital -		
Adult and pediatric -		
Medicare	966	956
All other	691	976
Swing bed	90	80
	1,747	2,012
Average length of stay:		
Hospital -		
Adult and pediatric -		
Medicare	3.97	3.55
All other	2.80	2.49
Swing bed	5.03	4.70
Observation equivalent days	117	136
Surgical procedures	3,544	3,416
Emergency Room visits	9,507	9,382
Clinic visits	9,740	9,102
Home Health visits	6,989	8,415
Total Hospice days and visits	5,845	8,147
Full-time equivalents personnel	282.83	309.26

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees of
Skiff Medical Center
Newton, Iowa:

We have audited the financial statements of Skiff Medical Center (Medical Center), as of June 30, 2011, and have issued our report thereon dated October 17, 2011. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Medical Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Seim Johnson, LLP › 18081 Burt Street, Suite 200 › Omaha, NE 68022-4722 › Tel: 402.330.2660 › Fax: 402.330.5108 › SeimJohnson.com

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of the Medical Center and other parties to whom the Medical Center may report. This report is not intended to and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Medical Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Seim Johnson, LLP

Omaha, Nebraska,
October 17, 2011.

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Part I: Summary of the Independent Auditor's Results

(a) An unqualified opinion was issued on the financial statements.

(b) There were no significant deficiencies or material weaknesses in internal control over financial reporting disclosed by the audit of the financial statements.

(c) The audit did not disclose any non-compliance or other matters which are material to the financial statements.

Part II: Findings Related to the Financial Statements

There were no findings related to the financial statements reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-11 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2011.

III-B-11 Certified Budget: Medical Center disbursements during the year ended June 30, 2011 did not exceed budgeted amounts.

III-C-11 Questionable Expenditures: We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-11 Travel Expense: No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

III-E-11 Business Transactions: No business transactions were found between Medical Center and Medical Center officials and/or employees.

III-F-11 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-11 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

Audit Staff
For the Year Ended June 30, 2011

This audit was performed by:

Harvey D. Johnson, FHFMA, CPA, Partner

Darren R. Osten, CPA, Manager

Amanda L. Schultz, CPA, In-Charge

Megan L. Parks, Associate